

# Cameco Corp.

(CCO-T: C\$16.96)

**NEUTRAL**

Target: C\$17.50 (from C\$16.00)

December 15, 2020

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## Cigar Lake Suspended; A Look at What's Priced Into Cameco

	Previous	Current
Rating:	NEUTRAL	NEUTRAL
Target:	C\$16.00	C\$17.50

Company Data	
Last Price (TSX)	\$16.96
52-Week Range:	\$7.69 - \$18.38
Market Capitalization (CSMln):	6,714
Enterprise Value (CSMln):	6,938
Shares Outstanding - Diluted (Mln):	396
Dividend Yield:	0.5%
Cash	773
Net Debt	224
Fiscal Year End	Dec 31

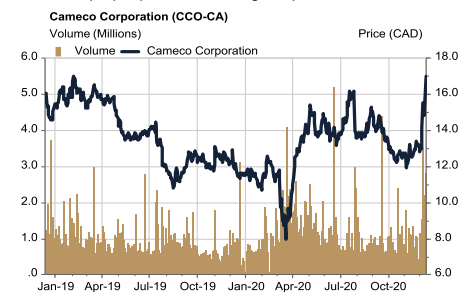
Sales Summary				
	2019 A	2020 E	2021 E	2022 E
Uranium (Mln lbs)	35	32	30	28
Fuel Services (mm kgU)	12	14	13	12
NUKEM (mm lbs)	6	2	1	1

Financial Summary				
	2019 A	2020 E	2021 E	2022 E
P/E	NM	NM	NM	29.5x
EV/EBITDA	18.1x	82.9x	33.1x	13.2x
CFPS	1.05	0.22	0.35	0.93
P/CF	16.1x	75.6x	48.4x	18.3x
Net Debt/ EBITDA	NA	3.2x	1.5x	0.5x

Quarterly EBITDA				
	2019 A	2020 E	2021 E	2022 E
Q1	14 A	51 A	2 E	95 E
Q2	43 A	-4 A	35 E	130 E
Q3	34 A	-10 A	48 E	126 E
Q4	277 A	42 E	117 E	152 E
FY	368 A	80 E	201 E	503 E

Quarterly EPS				
	2019 A	2020 E	2021 E	2022 E
Q1	-0.08 A	0.07 A	-0.07 E	0.12 E
Q2	-0.04 A	-0.16 A	-0.01 E	0.16 E
Q3	-0.01 A	-0.20 A	0.02 E	0.15 E
Q4	0.24 A	-0.01 E	0.12 E	0.15 E
FY	0.10 A	-0.30 E	0.06 E	0.58 E

Note: All values are in C\$, unless otherwise stated  
Source: Company Reports, FactSet, Eight Capital Estimates



Source: Company Reports, FactSet, Eight Capital estimates

### Company Description

Cameco is one of the world's largest uranium producers with mines in Canada, the U.S. and Kazakhstan, and is also a leading provider of nuclear fuel processing services and uranium trading.

**Cigar Lake suspended.** Cameco is suspending production at Cigar Lake over the coming weeks due to increasing risks posed by COVID-19 and increased uncertainty over the ability to maintain continuous operations, due in part to access to qualified operating personnel. **Impact: Net positive.** In our view, this is net positive in the short-term for uranium prices and Cameco shares. What Cameco loses by suspending production and having to buy relatively more expensive material in the spot market is more than offset by tighter uranium market fundamentals, upside potential to spot uranium prices, leverage to rising prices for Cameco's market-related contract book, sentiment around security of uranium supply, and scarcity value of large, liquid investment vehicles to play uranium/nuclear.

**Security of uranium supply can be a fragile distraction.** Due to the suspension, Cameco plans to increase purchases in the market to secure uranium needed to meet sales commitments. YTD, Cameco has completed open market purchases of 26.2Mln lbs vs. 77Mln lbs or 34% of total spot volumes for delivery within one year, as reported by UxC. CCO holds uranium inventory of 14.8Mln lbs at end-3Q20 at an average cost of C\$38.88/lb. To mitigate risk, Cameco can also borrow more end-user material currently under storage, or advance long-term purchase arrangements, all of which still serves to tighten the uranium market.

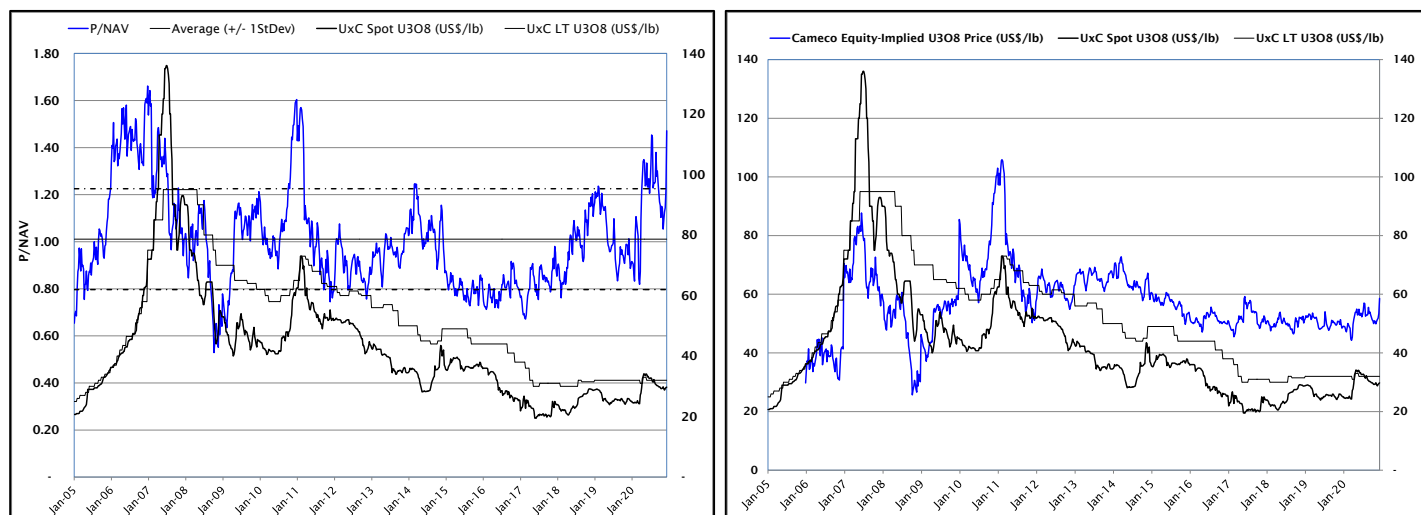
**FY20 Cigar Lake production guidance suspended; restart conditional on health & safety (not uranium markets).** Cameco does not expect to meet its 5.3Mln lbs Cigar Lake uranium production guidance for 2020. At full capacity, Cigar Lake is able to produce 18Mln lbs/year (100%-basis) or 12% of global mine supply (2019). The restart conditions for Cigar Lake are not the same as McArthur River; therefore, timing of a restart and the production rate will be dependent on how COVID-19 is impacting the availability of the required workforce at Cigar Lake, how cases are trending in northern Saskatchewan and local communities, and the views of public health authorities.

**Strong balance sheet able to manage closure costs of \$8-10Mn/month.** At end-3Q20, Cameco held cash and investments of \$793Mln (including short-term investments) and total debt of \$997Mln (net debt: \$204Mln). In addition, Cameco holds a \$1,000Mln undrawn credit facility (not including \$482Mln secured against CRA claims), which it does not expect to draw on, as capital requirements are expected to be met with cash and operating cash flow.

**Premium valuation has long been part of the investment narrative.** Rising cash flow potential on expectations of tightening uranium markets in the long-term, together with a unique market position with high industry barriers to entry and lack of investment alternatives, have kept valuation at a premium for Cameco shares. **A structural shift in uranium sentiment could provide Cameco valuation a runway.** Post the financial crisis/uranium inventory liquidation period (July 2010 - March 2011), Cameco's equity-implied uranium price rose +64% to \$93.85/lb (from \$57.13/lb) vs. spot price +71% to \$69.75/lb and LT price +26% to \$73/lb (from \$22.35/lb and \$40.75/lb, respectively). Comparatively, since the McArthur River "indefinite" shutdown in July 2018, Cameco's equity-implied uranium price has risen +17% to \$58.59/lb (from \$50.12/lb) vs. spot price +23% to \$29.75/lb and LT price +7% to \$32/lb (from \$24.10/lb and \$30/lb, respectively). **Our preferred picks in uranium are NexGen Energy Ltd. (NXE-T, BUY, TP C\$5.55) and UR-Energy Inc. (URE-T, BUY, TP C\$1.40)** - both covered by David A. Talbot.

**Maintain NEUTRAL; increase TP to C\$17.50 (from C\$16.00).** We now assume Cigar Lake remains suspended until end-1Q21 and have rolled forward our NAVPS to 2021, including our assumption that Cameco is able to secure spot purchases at a 5% discount to market. We increase our target multiple to reflect increased risks to uranium supply, despite continued uncertainty around the timing and quantum of term contracting by utilities. Our TP of \$17.50 is based on 1.4x (from 1.3x) P/NAV (\$11.64/share), with Cameco currently trading at an equity-implied uranium price of US\$59/lb, which compares to average historical P/NAV during uranium "bull markets" of 1.30x (peak: 1.60x).

**Cameco Historical Valuation: P/NAV (Left) and Equity-Implied Uranium Price (Right)**



Source: Company data, Eight Capital estimates

Post the financial crisis/uranium inventory liquidation period (July 2010 - March 2011), Cameco's equity-implied uranium price rose +64% to \$93.85/lb (from \$57.13/lb) vs. spot price +71% to \$69.75/lb and LT price +26% to \$73/lb (from \$22.35/lb and \$40.75/lb, respectively).

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**Cameco Historical Valuation by Uranium Period**

Post-Financial Crisis/Pre-Fukushima (Jul-2010 - Mar-2011)										
Cameco share price	UxC Uranium Price (US\$/lb)				Cameco Average Forward Multiples				Equity-Implied Ux Price (US\$/lb) (% Prem)	
	Spot	LT	CCO/LT	P/NAV	EV/EBITDA	P/E	P/CF	(US\$/lb)	(% Prem)	
Jul-2010	22.35	40.75	58.00	0.88	10.5	17.3	12.4	57.13	-2%	
Mar-2011	36.32	69.75	73.00	1.37	15.7	21.9	16.1	93.85	29%	
Change	63%	71%	26%	55%	49%	27%	29%	64%	30%	
Cameco Average										
Cameco share price	UxC Uranium Price (US\$/lb)				Cameco Average Forward Multiples				Equity-Implied Ux Price (US\$/lb) (% Prem)	
	Spot	LT	CCO/LT	P/NAV	EV/EBITDA	P/E	P/CF	(US\$/lb)	(% Prem)	
Average	33.09	54.99	63.38	1.30	15.2	24.7	17.8	84.04	32%	
Peak	41.55	73.00	73.00	1.60	18.2	29.7	21.9	105.88	58%	
Trough	22.35	40.75	58.00	0.88	10.5	17.3	12.4	57.13	-2%	
First McArthur River "Temporary" Production Cut (Nov-2017)										
Cameco share price	UxC Uranium Price (US\$/lb)				Cameco Average Forward Multiples				Equity-Implied Ux Price (US\$/lb) (% Prem)	
	Spot	LT	CCO/LT	P/NAV	EV/EBITDA	P/E	P/CF	(US\$/lb)	(% Prem)	
Nov-2017	10.84	20.30	31.00	0.80	10.0	28.7	9.1	48.66	57%	
Jul-2018	14.64	24.10	30.00	1.06	13.6	51.1	13.9	50.12	67%	
Change	35%	19%	-3%	33%	36%	78%	53%	3%	10%	
McArthur River "Indefinite" Shutdown (Jul-2018 - present)										
Cameco share price	UxC Uranium Price (US\$/lb)				Cameco Average Forward Multiples				Equity-Implied Ux Price (US\$/lb) (% Prem)	
	Spot	LT	CCO/LT	P/NAV	EV/EBITDA	P/E	P/CF	(US\$/lb)	(% Prem)	
Jul-2018	14.64	24.10	30.00	1.06	13.6	51.1	13.9	50.12	67%	
Current	17.01	29.75	32.00	1.46	26.9	(242.1)	16.1	58.59	83%	
Change	16%	23%	7%	37%	98%	-574%	16%	17%	16%	

Source: Company data, Eight Capital estimates

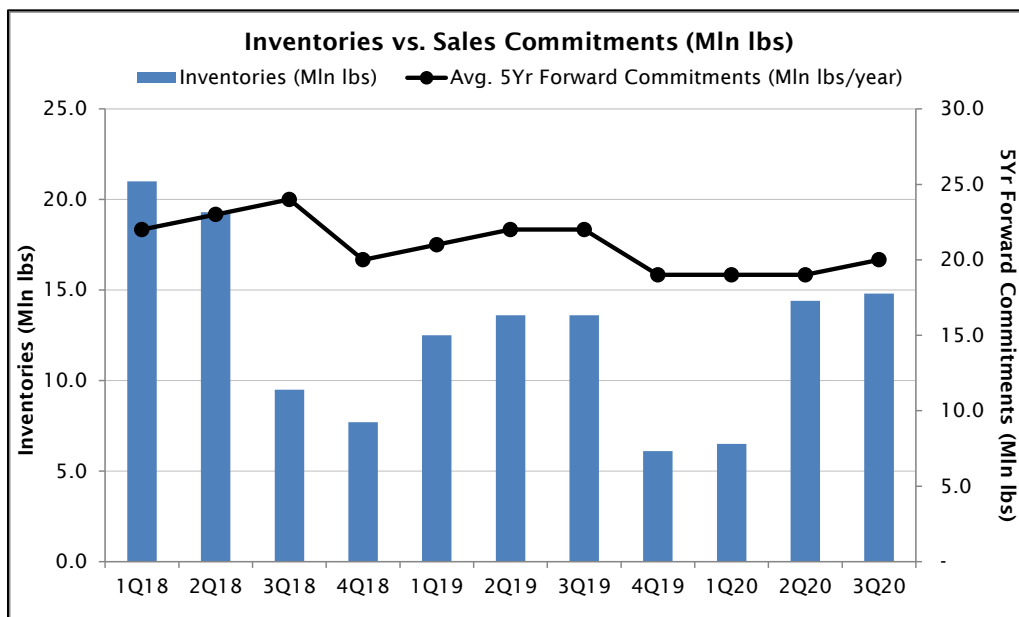
**Cameco Historical Valuation by Uranium Period**

Cameco Corp: Historical Valuation Periods	Uranium price trend (US\$/lb per week)		CCO Average Forward Multiples			
	Spot	LT	P/NAV	EV/EBITDA	P/E	P/CF
	Pre-Cigar Lake flood (pre Oct-06)	0.23	0.22	1.16	15.5	25.8
Peak Uranium (Oct-06 - Apr-08)	0.15	0.52	1.21	11.6	19.0	13.2
Financial Crisis-Inventory Liquidation (Apr-08 - Jul-10)	(0.20)	(0.27)	0.96	10.1	15.7	10.9
Post-Financial Crisis/Pre-Fukushima (Jul-2010 - Mar-2011)	0.85	0.39	1.34	15.7	25.5	18.4
Post-Fukushima/Supply Response (Mar-2011 - July-2018)	(0.11)	(0.11)	0.90	10.6	20.0	11.9
Post-McArthur River Shutdown (July-2018 - Present)	0.03	-	1.09	18.3	219.2	12.9
Current			1.47	26.9	(242.1)	16.1

Source: Company data, Eight Capital estimates

Over the next 5Yrs (2020-2024), average sales commitments total is 20Mln lbs/year, with commitments levels in 2020-2021 higher than in 2022-2024. At end-3Q20, Cameco held uranium inventory of 14.8Mln lbs at an average cost of C\$38.88/lb.

**Long-Term Uranium Contract Portfolio**



Source: Company data, Eight Capital estimates



Industrial Metals

**Cameco Corp.**

Rating: NEUTRAL  
Target price: C\$17.5

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Price assumptions	2018	2019	2020	2021	2022	2023	2024
Uranium Spot (US\$/lb)	24.58	25.20	29.55	32.75	35.00	39.00	42.00
Uranium Term (US\$/lb)	32.20	31.50	32.50	35.00	40.00	45.00	47.50
Cameco Realized Price (US\$/lb)	37.00	32.81	33.27	35.39	38.00	43.20	45.85
USD\$/CAD\$ (US\$)	0.774	0.741	0.741	0.750	0.775	0.800	0.800

Summary income statement (C\$Mln)	2018	2019	2020	2021	2022	2023	2024
Sales	2,092	1,863	1,684	1,724	1,769	1,957	2,115
Operating costs	1,468	1,346	1,478	1,401	1,088	1,093	1,172
DD&A	328	276	188	211	266	272	340
EBITDA	398	368	80	201	503	617	695
EBIT	70	92	(149)	(10)	237	344	355
EBT	40	90	(190)	(63)	185	292	319
Net income	166	74	(147)	24	228	318	346
EPS - FD	0.42	0.19	(0.37)	0.06	0.58	0.80	0.88
Adjusted EPS - FD	0.54	0.10	(0.30)	0.06	0.58	0.80	0.88
Shares outstanding - FD (Mln)	396	396	396	396	396	396	396

Summary cash flow statement (C\$Mln)	2018	2019	2020	2021	2022	2023	2024
Net income	166	74	(147)	24	228	318	346
Non-cash items	318	343	236	115	139	115	169
Working capital changes	210	113	(246)	-	-	-	-
Cash from operations	668	527	(173)	139	367	433	516
Net change in total debt	-	(500)	-	-	-	-	(500)
Net change in common equity	-	0	0	-	-	-	-
Dividends	(71)	(32)	(32)	(32)	(32)	(32)	(32)
Cash from financing activities	(144)	(607)	(53)	(32)	(32)	(32)	(532)
Property and equipment	(55)	(75)	(75)	(148)	(271)	(278)	(198)
Other investing activities	(356)	513	(20)	-	-	-	-
Cash from investing activities	(412)	437	(95)	(148)	(271)	(278)	(198)
Free cash flow	612	452	(247)	(9)	97	155	317
Net change in cash	112	358	(320)	(41)	65	123	(214)

Summary balance sheet (C\$Mln)	2018	2019	2020	2021	2022	2023	2024
Cash & equivalents	712	1,062	743	703	768	891	677
Total current assets	2,083	1,807	1,880	1,840	1,905	2,028	1,814
Fixed assets	3,882	3,721	3,762	3,699	3,704	3,709	3,567
Total assets	8,019	7,427	7,509	7,405	7,475	7,603	7,247
STD	500	-	-	-	-	-	-
Total current liabilities	876	277	399	399	399	399	399
LTD	996	997	997	997	997	997	497
Minority interest	0	0	0	0	0	0	0
Shareholder equity	4,993	4,995	4,839	4,831	5,028	5,314	5,629
Total liabilities & equity	8,019	7,427	7,509	7,405	7,475	7,603	7,247

Valuation Analysis	2018	2019	2020	2021	2022	2023	2024
NAVPS per share		11.64					
EPS per share	0.54	0.10	(0.30)	0.06	0.58	0.80	0.88
CFPS per share	1.22	1.05	0.22	0.35	0.93	1.09	1.30
P/NAV (x)		1.46					
P/E (x)	31.6	>100	NA	>100	29.5	21.1	19.4
P/CF (x)	13.9	16.1	75.6	48.4	18.3	15.5	13.0
Enterprise Value (Mln)	7,498	6,648	6,968	7,008	6,943	6,820	6,534
EV/EBITDA (x)	16.7	18.1	82.9	33.1	13.2	10.8	9.6
FCF Yield (%)	9.2%	6.8%	-3.7%	-0.1%	1.5%	2.3%	4.8%
P/BV (x)	1.3	1.3	1.4	1.4	1.3	1.3	1.2

Profitability Metrics	2018	2019	2020	2021	2022	2023	2024
EBITDA Margin (%)	19.0%	19.8%	4.8%	11.6%	28.4%	31.5%	32.9%
Return on Equity (%)	3.4%	1.5%	-3.0%	0.5%	4.6%	6.1%	6.3%
Return on Invested Capital (%)	2.5%	1.0%	-2.1%	0.0%	0.0%	0.0%	0.0%

Balance Sheet Analysis	2018	2019	2020	2021	2022	2023	2024
Debt/Equity (%)	30%	20%	21%	21%	20%	19%	9%
Debt/Debt + Equity (%)	19%	13%	13%	13%	13%	13%	7%
Net Debt/Equity (%)	16%	-1%	5%	6%	5%	2%	-3%
Net Debt/TTM EBITDA (x)	2.0	NA	3.2	1.5	0.5	0.2	NA
Net Debt/NTM EBITDA (x)	2.1	NA	1.3	0.6	0.4	0.2	NA
EBIT Interest Coverage (x)	6.6	0.8	1.7	5.5	10.4	12.3	1.3

Production Profile (CCO - Share)	2018	2019	2020	2021	2022	2023	2024
McArthur River (69.8%) (Mln lbs)	100	-	(0)	1,828	13,596	14,497	14,497
Cigar Lake (50.0%) (Mln lbs)	9,000	9,000	4,945	7,056	9,105	9,105	9,105
Inkai (40.0%) (Mln lbs)	2,000	3,300	3,310	3,740	3,740	3,740	3,740
US ISR (Mln lbs)	50	0	0	0	0	0	0

Revenue by Segment	2018	2019	2020	2021	2022	2023	2024
Uranium Mining (%)	81%	76%	77%	77%	78%	80%	81%
Fuel Services (%)	15%	20%	21%	20%	19%	16%	15%
NUKEM (%)	4%	4%	2%	3%	4%	3%	3%
Other (%)	0%	0%	0%	0%	0%	0%	0%

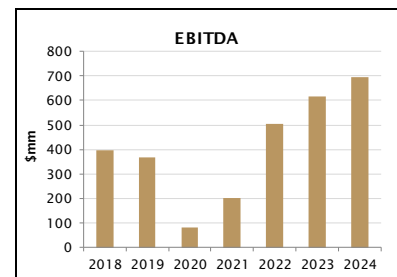
Cash Cost	2018	2019	2020	2021	2022	2023	2024
McArthur River (C\$/lb)	15.01	15.37	15.28	15.28	15.91	15.99	16.09
Cigar Lake (C\$/lb)	13.74	14.49	14.42	14.67	14.72	15.66	15.80
Inkai (C\$/lb)	11.35	-	-	-	-	-	-
Purchased Uranium (C\$/lb)	27.66	26.11	29.22	30.06	33.50	38.58	40.51
Total (C\$/lb)	17.01	15.73	15.54	14.80	17.22	17.54	17.64

Source: Eight Capital estimates, Company data

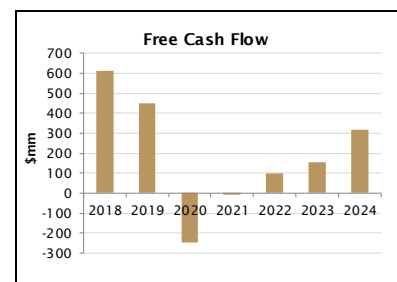
Industrial Metals	
Uranium	
CANADA	
Primary ticker	CCO-TSE
Price	16.96
Target price	17.50
Exchange rate (US\$/C\$)	0.78
Shares outstanding - FD (Mln)	395.8
Market Capitalization (C\$Mln)	6,714
Enterprise Value (C\$Mln)	6,938
Year end	Dec.31
Pricing currency	CAD\$
Accounting currency	CAD\$

Balance Sheet - (C\$ MM)	Most recent quarter
Cash and cash equivalents	773
Net working capital	1,510
Net PP&E	3,791
Total assets	7,567
Short term debt	-
Long term debt	997
Total shareholders' equity	4,874
Total liabilities & shareholder equity	7,567
Shares outstanding (Mln)	396
Book value per share	12.31
Net debt/net debt + equity (%)	3.8%

Net Asset Value Summary		
	C\$Mln	\$/share
McArthur River	2,499	6.31
Cigar Lake	574	1.45
Inkai (10%)	935	2.36
Rabbit Lake	137	0.35
Crow Butte	47	0.12
Smith Ranch/Highland	75	0.19
<b>Uranium Mining</b>	<b>4,267</b>	<b>10.78</b>
Uranium Contract Book	278	0.70
Fuel Services	534	1.35
NUKEM	48	0.12
Exploration & Development	665	1.68
<b>Gross Asset Value</b>	<b>5,792</b>	<b>14.63</b>
Long-term Debt	(997)	(2.52)
Working Capital	1,440	3.64
Net Debt	443	1.12
CRA tax remittance	260	0.66
Corporate SG&A	(755)	(1.91)
Reclamation liabilities	(1,134)	(2.86)
<b>Net asset value</b>	<b>4,606</b>	
Shares outstanding	396	
<b>Net asset value per share (C\$)</b>	<b>11.64</b>	



Source: Eight Capital estimates, Company data



Source: Eight Capital estimates, Company data

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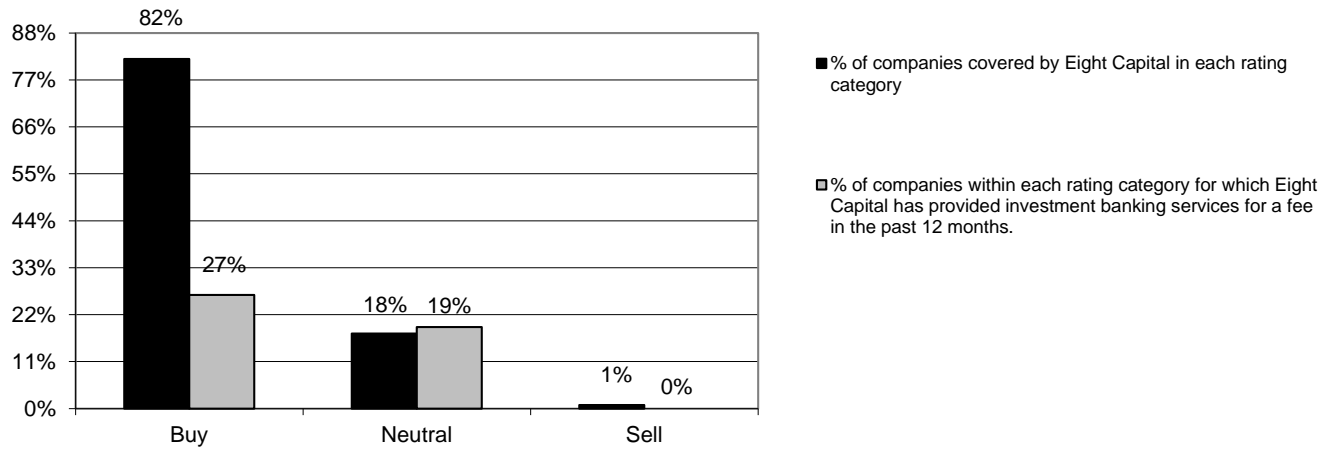
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**Recommendations:** **BUY:** Total returns expected to be materially better than the overall market with higher return expectations needed for more risky securities. **NEUTRAL:** Total returns expected to be in line with the overall market. **SELL:** Total returns expected to be materially lower than the overall market. **TENDER:** The analyst recommends tendering shares to a formal tender offer. **UNDER REVIEW:** The analyst will place the rating and/or target price Under Review when there is a significant material event with further information pending; and/or when the analyst determines it is necessary to await adequate information that could potentially lead to a re-evaluation of the rating, target price or forecast; and/or when coverage of a particular security is transferred from one analyst to another to give the new analyst time to reconfirm the rating, target price or forecast.

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